

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 2862 – SB 3056

March 15, 2012

**SUMMARY OF AMENDMENT (014048):** Amends Section One of the original bill. Requires the first award of teacher incentive bonuses to be made for evaluations received during the 2013-2014 school year. Teachers shall receive the bonuses no later than January 1, 2015.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - \$59,902,400

Other Fiscal Impact – Unexpended funding from state appropriations made to state special schools and the state BEP fund will shift to the Teacher Incentive Pay Fund. The total amount of unexpended funding will vary from year to year. The total amount of unexpended funding in FY10-11 from the state special schools and the state BEP was \$1,403,000. Unexpended amounts from these accounts will be placed into the Teacher Incentive Pay Fund and will defray the overall increase in state expenditures for teacher bonuses. For the purposes of the fiscal note, the increase in state expenditures does not reflect this net increase since the amount of any unexpended funding in FY11-12 and subsequent fiscal years is unknown.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Expenditures - \$59,902,400/Beginning in FY14-15

Other Fiscal Impact – Unexpended funding from state appropriations made to state special schools and the state BEP fund will shift to the Teacher Incentive Pay Fund. The total amount of unexpended funding will vary from year to year. The total amount of unexpended funding in FY10-11 from the state special schools and the state BEP was \$1,403,000. Unexpended amounts from these accounts will be placed into the Teacher Incentive Pay Fund and will defray the overall increase in state expenditures for teacher bonuses. For the purposes of the fiscal note, the increase in state expenditures does not reflect this net increase since the amount of any unexpended funding at the end of FY13-14 and subsequent fiscal years is unknown.

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Assumptions applied to amendment:

- There are 64,849 regular teachers in local education agencies and 234 teachers at state special schools eligible to receive bonuses. A total of 65,083 teachers will be eligible (64,849 + 234).
- Teachers scoring a three, four, or five in the previous school year will receive a bonus payment.
- DOE estimates that 72 percent of teachers will score a three or four on their teaching evaluation and receive a \$1,000 bonus. The number of teachers who will receive a \$1,000 bonus will be 46,860 (65,083 x 72%).
- The increase in state expenditures for this tier will be \$46,860,000 (46,860 x \$1,000).
- DOE estimates that nine percent of teachers will score a five on their teaching evaluation and receive a \$1,500 bonus. The number of teachers who will receive a \$1,500 bonus will be 5,857 (65,083 x 9%).
- The increase in state expenditures for this tier will be \$8,785,500 (5,857 x \$1,500).
- The increase in state expenditures for bonuses will be \$55,645,500 (\$46,860,000 + \$8,785,500).
- TCRS will not be paid on the bonus amount since bonuses will not be counted as earnable compensation.
- Federal taxes (FICA) in the amount of 7.65 percent of the total will be paid by the state to cover the employer's share of this tax. The increase in state expenditures for FICA will be \$4,256,881 (\$55,645,500 x 7.65%).
- The total increase in state expenditures for bonuses and FICA beginning in FY14-15 will be \$59,902,381 (\$55,645,500 + \$4,256,881).
- The total increase in state expenditures will be offset each year by the amount of unexpended or unencumbered funding from the state special schools and the state BEP fund. This amount will change annually. In FY10-11, state special schools had unexpended funding of \$1,164,000 and the state BEP fund had \$239,000.
- The increase in state expenditures reflects the full cost of implementation beginning in FY14-15 without defraying the costs using any unexpended fund balances since the amount of this funding that will be available at the end of FY13-14 and subsequent fiscal years is unknown.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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